

**Application for an Innovation Zone Planning Grant
TRI-CITIES, WASHINGTON**

Submitted by:



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Why Tri-Cities?

By any reasonable standard, the Tri-Cities is *already* a center of technological innovation. Whether it is, cutting edge research and development at Battelle's Pacific Northwest National Laboratory (PNNL), or collaboration in new bio-products research between Washington State University-Tri Cities and PNNL, or state-of-the-art solutions to some of the world's toughest challenges in cleaning up the Hanford site, the Tri-Cities is a leader in developing new innovative technologies and in using them to address real, everyday needs.

The Tri-Cities is currently home to 1,600 PhDs and 7,000 engineers and scientists and has the second highest percentage of technology jobs per 1,000 in the state. And technology jobs are good jobs. The average wage for a technology worker in the Tri-Cities is over \$70,000 a year.*

PNNL is the region's largest employer, surpassing Fluor Hanford, Inc. in 2005. Other major employers include Bechtel National, Inc., Lockheed Martin Services, Inc., Tyson Fresh Meats, ConAgra/Lamb-Weston, Kadlec Medical Center, CH2M Hill Hanford Group, Inc. and Energy Northwest.

The Tri-Cities economy grew at unprecedented rates during the first five years of this decade, achieving growth rates of 4 to 5 percent from 2002 to 2005. The rate of growth has slowed gradually since 2005, due largely to layoffs which have occurred as a result of various delays in the completion of major cleanup activities at Hanford. In spite of these layoffs, non-farm employment has continued to grow, with new service, trade and construction jobs resulting from the area's growth more than compensating for the temporary loss of jobs at Hanford. Recently, area unemployment rates have begun to climb and stood at 5.8 percent during April of 2006.

But even in the light of our recent growth and the many successes by local companies and institutions, the Tri-Cities faces an increasingly timely and unrelenting question: How to diversify the Tri-Cities economy in order to continue to grow and prosper in a life after Hanford?

Many of the building blocks of that economic diversification already exist. Many of our major employers would not be located in the Tri-Cities today if it were not for Hanford. Some of these major employers will leave when the cleanup mission at Hanford is completed. Others, like PNNL, have expanded their missions and activities well beyond their original ties to Hanford and will lead the area's economic diversification, along with tourism, trade and agri-business.

However, economic diversity will require that we attract new employers to the Tri-Cities - employers who can benefit from our competitive advantages and, in turn, create high wage new jobs that will replace the jobs lost at Hanford. That will require strong community partnerships, a sound strategic plan, and new economic development tools necessary to implement that plan. If structured correctly and adequately funded, the proposed Innovation Zone program could be a great help.

* Washington Technology Center, 2006 Washington Index of Innovation and Technology

Building on Current Initiatives.

The Tri-City Development Council (TRIDEC) and its economic development partners firmly believe that our economic diversification needs to be built on a solid strategic planning framework. The old adage, “if you don’t know where you’re going, any road will take you there” is all too true.

For that reason, and the ever-present knowledge that we must make significant strides toward economic diversify in the time remaining before the shut-down of the Hanford site, our local communities have invested more than \$375,000 to update their economic development plans and strategies over the past several years. Because these various plans and strategies were completed so recently, and because several of them were prepared by the same consultants, the Tri-Cities has the advantage of an unusually current and integrated vision of how it should proceed to diversify its economy. They include:

- PNNL “Research Campus of the Future” Development Plan (2005)
- City of Richland Strategic Economic Development Plan (2005)
- City of Kennewick Economic Development Plan (2006)
- TRIDEC Marketing Strategy (2006)
- Tri-Cities Research District Plan (2006)
- Tri-Cities Enterprise Association Entrepreneurial Support Study (2006)
- Washington State University-Tri Cities Four Year Higher Education Plan (2006)
- The City of West Richland has obtained funding to undertake a strategic economic development plan of its own.

Achieving these plans and strategies requires solid local partnerships and the detailed collaboration between local business, economic development and planning entities, including TRIDEC, the Tri-Cities Visitor and Convention Bureau, PNNL, WSU-TC, Columbia Basin College, area chambers of commerce, providers of small business assistance, business and technology incubator services, and major medical facilities, as well as cities, counties and port districts, in the planning and implementation of these efforts. These close working relationships will be a major advantage to us should the Tri-Cities be selected for one of the Innovation Zone grants.

Within the past year, a number of important local initiatives have already been announced:

- Redeployment of approximately 900 Department of Energy and PNNL employees to PNNL’s main campus in Richland has already begun, paving the way for the demolition of the Hanford 300 Area.
- PNNL announced a five-building, two million square foot expansion at their main campus in North Richland. Funding of the expansion is already well-advanced.
- Governor Gregoire signed into law a measure permitting WSU-TC to become a four-year institution. This was the result of an extraordinary cooperative local effort to develop a unified plan that allowed the Washington legislature to approve the measure.

- WSU-TC and Columbia Basin College announced an agreement earlier this year that will allow a seamless transition by CBC students to WSU-TC.
- Governor Gregoire also recently broke ground on a new \$24 million Bio-Sciences Sciences and Engineering Laboratory to be built on the campus of WSU-TC. This facility will be a joint collaboration between WSU-TC and PNNL.

In addition to these measures, TRIDEC and its local economic development partners have begun planning for the development of a new 50 to 130-acre Tri-Cities Research Park in North Richland on land adjacent to PNNL, the Hanford contractors, WSU-TC, the Port of Benton, business and technology incubation facilities and various publicly and privately-owned business and industrial parks. The project would be located roughly in the middle of a 1,600-acre “Research District” in North Richland, most of which is within a special “business-research” land use zone established by the City in 1994 (see map at Appendix #1).

The research park was a major recommendation of the 2006 Tri-Cities Research District Plan completed earlier this year by AngelouEconomics, Inc. If the consultant’s recommendations can be implemented, Phase I of this new park will be located on land currently owned by Battelle Memorial Institute on 50 acres just south of the PNNL campus. Phase II of the park would be located on 80 acres just to the south of the Battelle property on land owned by AREVA corporation. This property abuts both WSU-TC and the Port of Benton’s Richland Industrial Center (see map at Appendix #2). A new non-profit corporation would be created to administer the park and to work with the landowners to make their properties available for future development.

The study also recommends a major cooperative marketing effort designed to attract companies to the research park in four targeted categories in which the Tri-Cities has a clear competitive advantage – clean energy, biosciences, environmental technologies and software and computation. A previous study provided a list of additional target industries in the areas of electronics, medical devices, and automotive products. Many, if not most of these companies are ISO9000 certified and are involved in advanced technology adoption and work strategies.

At this point, the research park initiative is being addressed by the local partners with limited funding and in-kind services although efforts are underway to identify permanent sources of funding. The proposed Innovation Zone program, properly designed to complement these existing economic development strategies, could be a major help to these efforts.

The Proposed Tri-Cities Innovation Zone.

Location. Most economic development “zone” programs are created in order to target investments and jobs in areas noted for their factors of distress such as income levels and unemployment rates. Their boundaries are generally defined by census tracts or other data-based criteria.

We believe that an innovation zone should target innovation, creativity and collaborative research, not areas of distress. As Tom Friedman says in his exceptional book, *The World is Flat*, “Innovation increasingly involves the

intersection of very advanced specialties, therefore to come up with a new innovation, you need to be able to combine specialties in a collaborative environment.” That’s what PNNL is all about. That’s what the proposed Tri-Cities Research Park is all about. That’s what TRIDEC and its economic development partners believe a Tri-Cities Innovation Zone would be all about - attracting new and expanding companies to build and expand in the Tri-Cities.

However, we also realize that different companies have different location requirements. Therefore, we believe that zone benefits should be available to a company that was attracted to the Tri-Cities as a result of the innovation zone program but that needs to locate outside of the park because, for example, they require rail service at the Port of Benton or the City of Richland’s nearby Horn Rapids Industrial Park, or the use of the airport at Kennewick’s Vista Field.

In other words, we see a cluster of technology companies less as a place-based innovation zone and more of an intellectual innovation zone, created by the intellectual confluence of PNNL, WSU-TC, science and research-oriented Hanford contractors, their suppliers and intellectual support network so that the various companies and disciplines can easily collaborate, similar to the process that goes on in a small business incubator or organized cluster. Our task is to recruit desired companies into that intellectual zone.

How should the boundaries of that zone be determined? We would prefer that the boundaries focus primarily on the area where the innovation and collaboration is going on – in our case the proposed research park – but with benefits also available to companies that were attracted to the Tri-Cities because of the existence of the zone. However, there are some other options. We would explore these in more detail should we be selected for a demonstration grant.

- Perhaps an alternative would be to encourage some reasonable time-based proximity to the zone (perhaps 30 minutes traveling time) to allow for convenience of personal collaboration. Technology companies already tend to do this naturally in North Richland and in other technology centers, such as Redmond and South Lake Union and Silicon Valley.
- It may be necessary in a statewide program to define zone boundaries on the basis of publicly available data such as census tracts or unemployment rates, but these artificial measures do not meet the needs of the companies we hope to attract to the Tri-Cities and whose *business needs* dictate their location decisions. If we were the recipient of one of the grants, and if necessary, we would work with local cities and counties to determine the census tracts that are best suited to attracting and developing innovation in research and development, high-tech manufacturing and agribusiness.

Additional Resources. We believe that location is just one factor in creating a successful state innovation zone program. In order for the zone to actually provide competitive advantage and attract companies, it will require additional resources, such as insuring the funding for effective marketing, targeted incentives, workforce development and community outreach programs, and the means to support small business development and entrepreneurship.

Marketing. From experience gathered in other states and from the federal Enterprise and Empowerment Zone programs, the costs of marketing and attracting target companies to locate in a zone can be extensive. It would be helpful if the state program could help fund zone marketing efforts in the zones it creates in combination with local partners.

Incentives. Additionally, a competitive innovation zone program is not practical without targeted incentives which actually address the specific needs of the companies you are attempting to attract. Today, business incentives are a way of life in business recruitment. Companies simply expect them. Recent improvements in state incentives for technology companies are helpful, but more may need to be done. Should the Tri-Cities be selected to receive one of the demonstration grants, we would explore local recommendations for innovation zone incentives, such as:

- An accelerated depreciation rates on real and personal property. Technology based companies must constantly upgrade technology to maintain or gain a competitive advantage in an ever-changing market place. Accelerated depreciation rates provide an equitable incentive that not only provides a benefit to the company, but takes into consideration the operating paradigm of these companies.
- Reduction (or elimination) of the B&O tax for business conducted in the Zone.
- Additional work needs to be done to improve the ability of local communities to create tax increment financing districts.

Small Business Assistance. The proposed innovation zone program should also seek to include funding for activities that assist startup and successful small businesses in addition to those attracting new businesses to the zone. A recently completed study of local entrepreneurial support activities in the Tri-Cities, also conducted by AngelouEconomics, Inc. concludes that this is an existing problem and suggested that:

- An “entrepreneurial collaborative” be created to combine information about local small business assistance providers in one place in a new online one-stop shop, so that all requests can be directed to this one source and then referred to the service provider and that this entrepreneurial collaborative hold frequent meetings.
- A new Web Portal should be created to act as the primary interface between local service providers and entrepreneurs seeking assistance.
- Small businesses should be surveyed annually to determine how the Tri-Cities are serving their needs. Current business retention efforts target manufacturers or companies in a particular city, not small businesses generally.
- Based on these results, small business providers should meet together periodically to determine if their programs are actually meeting current needs.

In addition, we could explore the potential for creating a series of regional CEO roundtables providing a facilitated peer learning experience to CEOs of high

growth and innovative companies. Staff at WSU-TC has been doing a lot of research into a program developed by the Edward Lowe Foundation and are impressed and eager to introduce it in the Tri-Cities. In addition, various opportunities to link new and smaller companies with larger companies should be an important component of the state's Innovation Zone program.

Workforce Development. The Tri-Cities is already home to one of Washington State's largest concentrations of technological and scientific workers. However, recent layoffs resulting from the slowdown of the Hanford cleanup effort have resulted in the availability of many highly trained workers for other technology jobs. These workers need to be identified and, in some cases, retrained.

It's also important to understand that the creation of an innovation zone in the Tri-Cities would create employment opportunities for more than scientists, researchers, or skilled manufacturing jobs. A successful innovation zone would create more of *all* kinds of jobs - jobs in startup and small businesses, support jobs and entry level jobs.

WorkSource Columbia Basin is a full partner in these efforts and has a long history of working closely with local economic development entities. Our approach to providing information about local labor market and skill issues in the proposed zone area might include:

- Meeting with our local regional economist to discuss labor market information and trends in order to identify current, and forecast future labor supply and demands for occupations associated with the types of businesses and industries we will be trying to attract to the zone. In addition, we would identify wages scales and benefits associated with these occupations and further identify any reports that would provide us with information relating to the demographics of the workforce and how that might influence supply and demand of qualified workers present and future.
- If the available timeframe is sufficient, we would propose to hold discussions and/or conduct surveys regarding workforce needs with partners, stakeholders, researchers, industry associations, and entrepreneurs to discuss how to identify required skills sets, skill gaps, and how to meet current and future education and training needs. Additional work might be undertaken in order to determine what is needed to retain and attract highly talented workers in our target industries.
- Holding discussions with our local educators on how to meet the workforce needs as identified above, from the pool of local community college and university students. It is also important to try to find ways of involving high school students in career path decisions that can lead to further education and eventual employment, particularly in technology companies attracted to the Tri-Cities and its innovation zone. Discussions with educators and employers would be designed to identify opportunities for high skill/high wage jobs for disadvantaged workers, incumbent workers, dislocated workers, low-income adults and older youth. Finally, we would attempt to identify barriers for targeted

populations that either prevent or deter these individuals from gaining the necessary skills to obtain high wage/high skill jobs in zone businesses.

- Building on work, already undertaken by TRIDEC, to survey young adults and professionals in order to determine what influences and/or attracts them to stay in the Tri-Cities area.

Community Outreach. Along with small business assistance and workforce development, a community outreach program should be considered as an important component of any proposed innovation zone. If selected, our approach to community outreach activities would likely include:

- Working with local educators to determine the potential for creating integrated and progressive career paths from high school through university aimed at eventual employment in existing or new companies attracted to the zone. Richland's Hanford High School, for example, is in a unique position to participate in such a program, being located within blocks of the WSU-TC and PNNL campuses.
- Facilitation of student internships with WSU Tri-Cities' undergraduate and graduate students and client companies. Students would complete specific projects (i.e., inventory database, e-commerce tools, marketing plans, etc.) for local businesses.
- Perhaps the Innovation Zone program could also help support other targeted community outreach programs such as a speaker's bureau, working with science and technology clubs, and student mentoring and shadowing programs and internships to attract local students to eventually seek employment in zone businesses.

Additional Benefits. An innovation zone program should create additional benefits to the community and the state. By locating the zone near existing institutions and technology businesses you create and support synergy and collaboration that improve all of them. By marketing and successfully attracting companies to locate at the park or at other Tri-Cities locations, you increase the economic diversity of the community. By tying in small business assistance, workforce development programs and community outreach programs you expand the benefits of the zone to the entire community, create new jobs and tax base for the local communities and for the state.

If selected to be the recipient of one of the five Innovation Zone demonstration grants, TRIDEC and its local economic development partners would work closely with CTED and the Governor's Office to identify and define public policy options and opportunities as the concept goes forward to the 2006 Priorities of Government budget process and the 2007 legislative session. We believe that the unique combination of public and private sector entities in the Tri-Cities, their proximity to each other, their existing levels of collaboration, and the existence of an existing economic development strategy and a specific project that ties them all together, presents a unique opportunity to learn from our experience and to develop public policy initiatives that can be used elsewhere in the state.

Conclusion.

As envisioned by TRIDEC and its local economic development partners, a Tri-Cities Innovation Zone would support our existing economic development strategies by targeting new state resources toward the creation and operation of the Tri-Cities Research Park and to attracting new businesses to the park. We are actively pursuing this initiative in any event, although it would be much easier to achieve if we had the State of Washington as an active partner in the process.

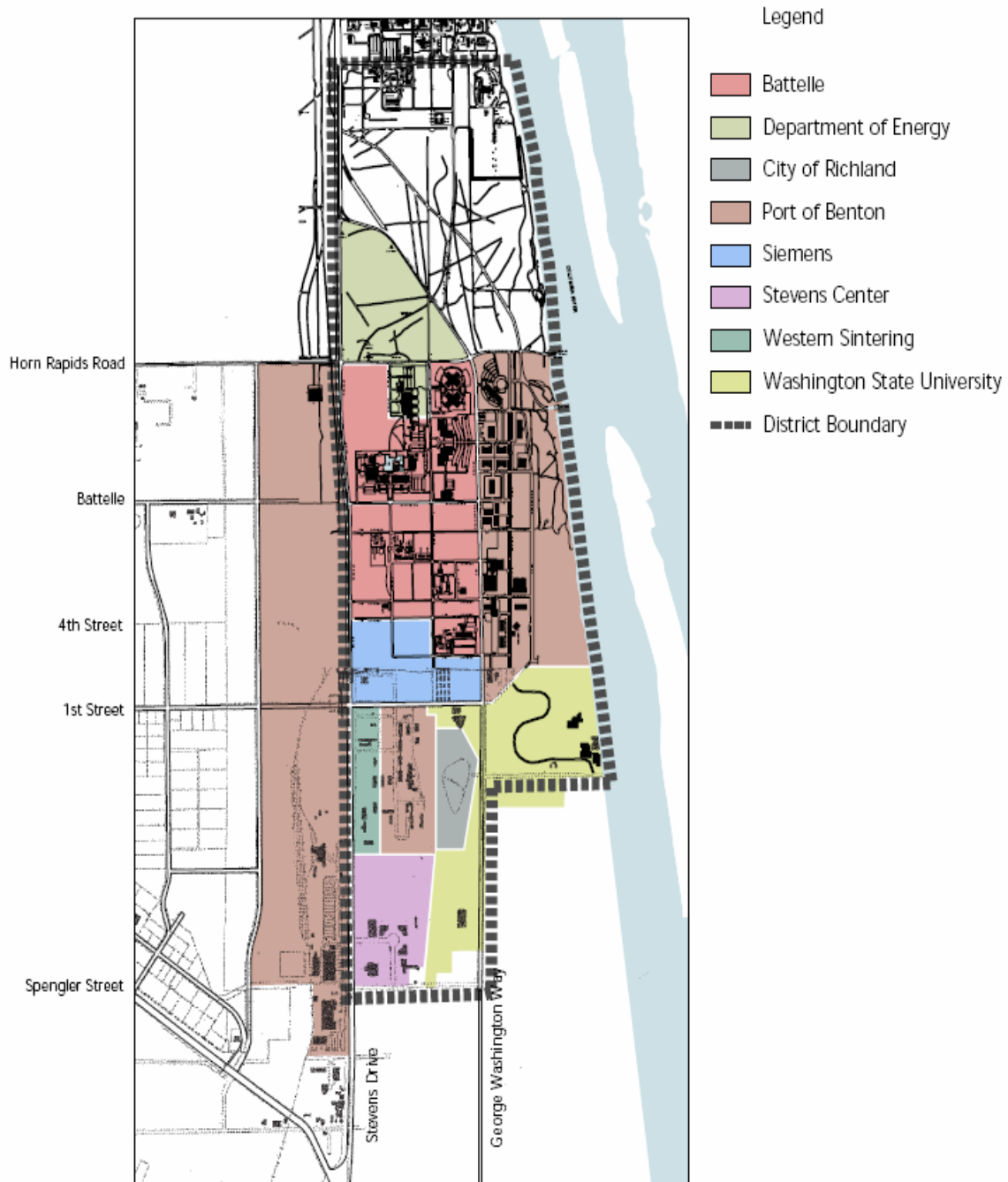
If selected, our local match would consist of the more than \$375,000 the community has spent in the past two years in developing our plans and strategies and of the staff time devoted to this issue by TRIDEC and its local economic development partners.

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Attachment #1: Boundaries and Land Ownership in the Research District



Attachment #2: Tri-Cities Research Park Location and Proposed Phases

